

# Audit Report

## Muskegon County Community Mental Health Services

October 1, 1998 – September 30, 2000



Office of Audit  
Grand Rapids Regional Office  
December 2004



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GOVERNOR

STATE OF MICHIGAN  
DEPARTMENT OF COMMUNITY HEALTH  
OFFICE OF AUDIT  
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JANET OLSZEWSKI  
DIRECTOR

December 22, 2004

Ms. Janet S. Thomas, Chairperson  
Muskegon County Community Mental Health Services –  
Board of Directors  
376 Apple Avenue  
Muskegon, MI 49442-3466

and

Mr. James M. Elwell, Executive Director  
Muskegon County Community Mental Health Services  
376 Apple Avenue  
Muskegon, MI 49442-3466

and

Ms. Janet Olszewski, Director  
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Dear Ms. Thomas, Mr. Elwell & Ms. Olszewski:

Enclosed is our report on the audit of Muskegon County Community Mental Health Services, an agency under contract with the Department of Community Health.

Sincerely,

Mr. Gerald C. Szczepaniuk, Regional Manager  
Department of Community Health  
Grand Rapids Regional Office of Audit – Unit 11  
350 Ottawa, N.W. – Fifth Floor  
Grand Rapids, MI 49503

Enclosure

cc: Muskegon County Board of Commissioners  
Patrick Barrie  
James Hennessey  
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Michael Ezzo  
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Gary VanNorman

Nick Lyon  
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## TABLE OF CONTENTS

	Page
Description of Agency .....	1
Funding Methodology.....	1
Purpose and Objectives.....	2
Scope and Methodology .....	2
 <u>Conclusions, Findings and Recommendations</u>	
<u>Contract and Best Practice Guidelines Compliance</u> .....	3
1. Resident Funds.....	3
2. Negative Balances in Individual Resident Fund Accounts.....	4
<u>Financial Reporting</u> .....	5
3. Financial Status Report Differences – State Facilities Expenditures.....	5
4. Financial Status Report Differences – Revenue – Medicaid and State General Funds ....	6
5. Financial Status Report Differences – Medicaid Children’s Waiver.....	8
6. Financial Status Report Differences – SSI Revenue for GF Services .....	9
7. Financial Status Report Differences – Food Stamp Program .....	10
8. Internal Service Fund.....	11
9. Capital Purchases .....	13
10. Legal Fees .....	14
11. Lobbying Expenses.....	15

	Page
12. Payroll Expenses.....	16
13. Year-end Allocation of County Expenditures.....	18
14. Overpayments for Less Than Arms Length Lease Arrangements.....	20
<u>MDCH's Share of Costs and Balance Due MDCH</u> .....	22

### Schedules

Schedule A - Financial Status Report - FYE 9/30/1999 .....	23
Schedule B - Explanation of Audit Adjustments - FYE 9/30/1999 .....	28
Schedule C - Contract Reconciliation and Cash Settlement Summary - FYE 9/30/1999 .....	34
Schedule D - Financial Status Report - FYE 9/30/2000 .....	37
Schedule E - Explanation of Audit Adjustments - FYE 9/30/2000 .....	42
Schedule F - Contract Reconciliation and Cash Settlement Summary - FYE 9/30/2000.....	47
Corrective Action Plans .....	51

## **DESCRIPTION OF AGENCY**

The Muskegon County Community Mental Health Services (MCCMHS) was established in 1963 and operates under the provisions of the Mental Health Code, being Sections 330.1001 – 330.2106 of the Michigan Compiled Laws. MCCMHS is an agency of the Muskegon County Government (County) and is subject to oversight by the Michigan Department of Community Health (MDCH).

The MCCMHS provides outpatient, partial day, residential, case management, prevention and Omnibus Budget Reconciliation Act (OBRA) services to consumers within Muskegon County.

The MCCMHS administrative office is located in the city of Muskegon. The MCCMHS board is comprised of 12 members who reside in Muskegon County and are appointed for three-year terms.

## **FUNDING METHODOLOGY**

On October 1, 1998 the MCCMHS contracted with MDCH under a Managed Specialty Supports and Services Contract (MSSSC). For the twelve-month period ended September 30, 1999, MCCMHS reported expenditures of \$35.0 million. For the twelve-month period ended September 30, 2000, MCCMHS reported expenditures of \$34.5 million. MDCH provided MCCMHS with both the State and Federal share of Medicaid funds as a capitated payment based on a Per Eligible Per Month (PEPM) methodology. The specific rates paid on the PEPM methodology are listed in an attachment to the contract. MDCH also distributed the non-Medicaid full-year State Mental Health General Funds (GF) based on a separate formula included as an attachment to the contract. Other funding received separately outside of the MSSSC included special and/or designated funds, fee for services funds, and MICHild capitated funds. The special and/or designated funds were provided under special contractual arrangements between MCCMHS and MDCH. The funding methodologies for these arrangements are specified in each agreement. MICHild is a non-Medicaid program designed to provide certain medical and mental health services for uninsured children of Michigan working

families. MDCH also provided the funding for this program by capitated payments based on a Per Enrolled Child Per Month methodology for covered services.

## **PURPOSE AND OBJECTIVES**

The purpose of this review was to determine MDCH's share of costs in accordance with applicable MDCH requirements and agreements, and whether the agency properly reported revenues and expenditures in accordance with generally accepted accounting principles and contractual requirements; and to assess the agency's effectiveness and efficiency in establishing and implementing policies and procedures to ensure compliance with contractual and other legal requirements. Following are the objectives:

1. To assess MCCMHS's effectiveness and efficiency in establishing and implementing policies and procedures to ensure compliance with contractual and other legal requirements.
2. To assess MCCMHS's effectiveness and efficiency in reporting their financial activity to MDCH in accordance with the MSSSC requirements; applicable federal, state, and local statutory requirements; Medicaid regulations; and applicable accounting standards.
3. To determine MDCH's share of costs in accordance with applicable MDCH requirements and agreements, and any balance due to or due from MCCMHS.

## **SCOPE AND METHODOLOGY**

We examined MCCMHS's records and activities for the period October 1, 1998 through September 30, 2000. We completed an internal control questionnaire with the MCCMHS finance supervisor. The purpose was to review internal controls relating to accounting for revenues and expenditures, procurement and other contracting procedures, reporting, claims management, and risk financing. Discussions were held throughout the audit with MCCMHS's finance supervisor, the County's Director of Accounting, and other MCCMHS management personnel. We reviewed MCCMHS's policies and procedures. We summarized and analyzed

revenue and expenditure account balances to determine if they were properly reported on the financial status reports (FSRs) in compliance with the MSSSC reporting requirements and applicable accounting standards. We performed our audit procedures from September 2001 through March 2002.

## **CONCLUSIONS, FINDINGS AND RECOMMENDATIONS**

### **CONTRACT AND BEST PRACTICE GUIDELINES COMPLIANCE**

**Objective 1:** To assess MCCMHS's effectiveness and efficiency in establishing and implementing policies and procedures to ensure compliance with contractual and other legal requirements.

**Conclusion:** MCCMHS was not always effective and efficient in establishing and implementing policies and procedures to ensure compliance with contractual and other legal requirements. Our assessment disclosed exceptions with respect to resident funds (Findings 1 and 2), the establishment of the Internal Service Fund (ISF) (Finding 8), the rental of office space (Finding 14), and financial reporting (Findings 3 through 14). Since Findings 3 through 14 also relate to financial reporting, they are addressed in detail under Objective 2.

#### **Finding 1.**

##### **Resident Funds**

MCCMHS did not maintain resident funds in compliance with the Licensing Rules for Adult Foster Care Small Group Homes issued by the State of Michigan Department of Consumer & Industry Services (Licensing Rules).

Licensing Rule 400.14315, Handling of Resident Funds and Valuables, sub-section (5), states, "All resident funds, which includes bank accounts, shall be kept separate and apart from all funds and monies of the licensee." Sub-section (9) states, "A licensee shall be prohibited from having any ownership interest in a resident's account and shall verify such in a written statement to the resident or the resident's designated representative." MCCMHS's

residents' funds were commingled with the general operating and investment funds of Muskegon County. The resident funds are for those MCCMHS clients for whom MCCMHS is the representative payee for Social Security or SSI.

### **Recommendation**

We recommend MCCMHS adopt policies and procedures to ensure adherence to the pertinent rules regarding the handling and safekeeping of resident funds as detailed in the Licensing Rules for Adult Foster Care Small Group Homes issued by the State of Michigan Department of Consumer & Industry Services, R 400.14315 Handling of Resident Funds and Valuables.

### **Finding 2.**

#### **Negative Balances in Individual Resident Fund Accounts**

MCCMHS distributed more funds than had been deposited into resident fund accounts resulting in negative balances.

Many individual resident accounts had negative balances. The majority of these “negative balance” accounts were short-term in nature and resulted from MCCMHS issuing a check for the resident’s share of their residential housing, due on the first of the month, prior to the receipt of their SSI, SSA or other income checks. However, several of the resident fund accounts were long-term “negative balance” accounts that had been in arrears and unchanged for several years. Consequently, some residents’ funds were used to benefit other residents in violation of Licensing Rule 400.14315, subsection (9), which states, “A resident’s account shall be individual to the resident.” Also, these long-term “negative balances” resulted in a reduction of the interest income earned on the resident funds that was to be distributed to those residents having a positive balance in their trust accounts.

### **Recommendation**

We recommend MCCMHS adopt policies and procedures to ensure adherence to the pertinent rules regarding the handling and safekeeping of resident funds as detailed in the Licensing Rules for Adult Foster Care Small Group Homes issued by the State of Michigan



Department of Consumer & Industry Services, R 400.14315 Handling of Resident Funds and Valuables.

## **FINANCIAL REPORTING**

**Objective 2:** To assess MCCMHS's effectiveness and efficiency in reporting their financial activity to MDCH in accordance with the MSSSC requirements; applicable federal, state, and local statutory requirements; Medicaid regulations; and applicable accounting standards.

**Conclusion:** MCCMHS did not accurately report its financial activity to MDCH on the FYE 9/30/1999 Financial Status Report (FSR) or the FYE 9/30/2000 FSR. We found that the revenues and expenses reported on the FSRs in several areas did not agree with the general ledger. We found exceptions in the following areas: State Facilities Expenditures (Finding 3), State General Fund and Medicaid Revenue (Finding 4), Medicaid Children's Waiver (Finding 5), SSI Revenue for GF Services (Finding 6), and Food Stamp revenues and expenditures (Finding 7). The FYE 9/30/1999 FSR included costs for the improper establishment of an ISF (Finding 8). The FSRs included non-allowable costs for fixed assets (Finding 9), legal expenses (Finding 10), lobbying expenses (Finding 11), wages for employees performing services not related to MCCMHS (Finding 12), inappropriately allocated costs from Muskegon County (Finding 13), and rental costs from Muskegon County in excess of underlying costs for office space (Finding 14).

### **Finding 3.**

#### **Financial Status Report Differences – State Facilities Expenditures**

MCCMHS inaccurately reported expenditures related to State facilities on the FYE 9/30/1999 and FYE 9/30/2000 FSRs.

The MSSSC, Attachment 8.9.1, Section 2.4.3, Row J: Payments to MDCH for State Services, states, in pertinent part, "...This amount must reconcile with the State Facility Utilization form included in this report and is to be reported on an accrual basis...".

The originally filed FSR for FYE 9/30/1999 inaccurately reported expenditures related to State facilities. The MDCH Accounting Division found this expenditure overstated by \$1,734. MCCMHS agreed with this, but when preparing the revised FSR erroneously transferred \$1,292 from Payments to MDCH for State Services to GF – Formula Funding. Consequently, the Payments to MDCH for State Services were overstated by \$442 and GF Formula Services Expenditures were overstated by \$1,292. Audit adjustments removing \$442 from Payments to MDCH for State Services and \$1,292 from GF Formula Services are shown on Schedules A and B.

The FYE 9/30/2000 FSR inaccurately reported expenditures related to State Facilities. The amount of State Facilities cost was understated as a result of a consumer coverage issue between Muskegon and Ottawa Counties. Upon Muskegon's acceptance of responsibility for the consumer, the cost of care was transferred to Muskegon and included in the preliminary settlement from MDCH. The cost of care for the covered consumer was \$19,152. Audit adjustments increasing State Services Expenditures by \$19,152 are shown on Schedules D and E.

#### **Recommendation**

We recommend MCCMHS adopt policies and procedures to ensure compliance with the FSR instructions, and proper expenditure reporting.

#### **Finding 4.**

##### **Financial Status Report Differences – Revenue – Medicaid and State General Funds**

MCCMHS inaccurately reported State General Funds Revenue on the FYE 9/30/1999 and FYE 9/30/2000 FSRs, and the Medicaid revenue on the FYE 9/30/2000 FSR.

Both the originally filed and revised FSR for FYE 9/30/1999 show State GF - Categorical Funding as \$29,531, while the Master Contract Attachment # 2 shows this amount as \$19,300. The MSSSC, Attachment 8.5.0.1, Section 4.0, Special and/or Designated Funds: Exclusions, states, in pertinent part, "The Special and/or Designated Funds...are MDCH funds that are excluded from the Medicaid and Formula Funds financing... These funds are

referred to as either Categorical, or MDCH Earned Contracts...The Categorical funds are authorized for a specified purpose, and are listed in the table below. The total of these funds is also reflected under line J of the revenue plan in Attachment 8.9.1.” The MSSSC, Attachment 8.9.1, Section 2.3.2, Row J-2, states, “Categorical Funding – Enter all revenues for categorical funding authorized by the MDCH Mental Health and Substance Abuse Services, as reflected in Attachment 8.5.0.1.” Since Categorical Funding is deducted from the Total GF Funding Authorization to determine the Risk Band, an overstatement of Categorical Funding causes an understatement of the Risk Band and an understatement of funds available for Carryforward. Audit adjustments removing \$10,231 from State GF - Categorical Funding and placing it in State GF - Formula Funding are shown on Schedules A and B.

The revised FSR for FYE 9/30/1999 shows State Services Base Revenue as \$1,371,953. However, the authorization for state facility utilization for FYE 9/30/1999 was \$976,822. The FSR for FYE 9/30/2000 shows State Services Base Revenue as \$1,558,274. However, the authorization for state facility utilization for FYE 9/30/2000 was \$1,953,911. The MSSSC, Attachment 8.9.1, Section 2.3.2, Row J-3, states, “State services base – Enter the authorized maximum funding for state facility utilization.” Audit adjustments removing \$395,131 from State Services Base and placing it in State GF – Formula Funding for FYE 9/30/1999 are shown on Schedules A and B. Audit adjustments adding \$395,637 to the State Services Base and decreasing the State GF – Formula Funding for FYE 9/30/2000 are shown on Schedules D and E.

The revised FSR for FYE 9/30/1999 shows the State General Funds Total as \$6,989,508. However, General Funds paid to MCCMHS totaled \$7,412,881. The FSR for FYE 9/30/2000 shows the State General Funds Total as \$7,367,409. However, General Funds paid to MCCMHS totaled \$8,113,135. The MSSSC, Attachment 8.9.1, Section 2.3.2, Rows J and J-1, state that these lines should reflect the amount of funds received from MDCH. Audit adjustments to increase the State General Funds Total and Formula Funding by \$423,373 for FYE 9/30/1999 are shown on Schedules A and B. The audit adjustments to

increase the State General Funds Total and the Formula Funding by \$745,726 for FYE 9/30/2000 are shown on Schedules D and E.

The FSR for FYE 9/30/2000 inaccurately reported the total Medicaid Funds received. The MSSSC, Attachment 8.9.1, Section 2.3.2, Row H-1, states, "Medicaid—Specialty Managed Care – Gross (state plus federal share) expected capitated payments. The fourth quarter and final reports must provide actual payments." The total Medicaid capitation payments used for the preliminary settlement of August 3, 2001 was reported as \$23,305,539, which was \$1,591,752 greater than the amount reported on the FSR. Audit adjustments to increase the Medicaid – Specialty Managed Care Revenue by \$1,591,752 are included on Schedules D and E.

### **Recommendation**

We recommend MCCMHS adopt policies and procedures to ensure compliance with the FSR instructions, and proper revenue reporting.

### **Finding 5.**

#### **Financial Status Report Differences – Medicaid Children's Waiver**

MCCMHS inaccurately reported revenues and expenditures related to the Medicaid Children's Waiver on the FYE 9/30/1999 FSR.

The MSSSC, Attachment 8.9.1, Subsection 2.3.2, Row H: Gross Medicaid, states, in part, "Row H-2 Medicaid - Children's Waiver Total - Gross expected earnings from the Children's Waiver, including home health services." The MSSSC, Attachment 8.9.1, Subsection 2.4.3, Row M: Children's Waiver, states, "Enter the total expenditures for the Children's Waiver Services on this line." Further, it states, "Row M-2 Other Reimbursements - Enter the total of other reimbursements associated with these expenditures."

MCCMHS's revised FSR for FYE 9/30/1999 showed "Medicaid - Children's Waiver Total" Revenues as \$466,622, but MCCMHS's general ledger and MDCH records showed Children's Waiver revenues of \$469,813. Total Children's Waiver expenditures were

properly reported at \$466,622. But, MCCMHS reported \$3,191 as negative “Other Reimbursements.” Consequently, MDCH’s share of the Children’s Waiver expenditures was overstated by \$3,191.

Audit adjustments to increase Medicaid – Children’s Waiver Revenue and decrease the MDCH Share Children’s Waiver Expenditures by \$3,191 are shown on Schedules A and B. As total Children’s Waiver expenditures were \$466,622, and MDCH paid MCCMHS \$469,813, a total of \$3,191 is due back to MDCH as reflected on Schedule C.

### **Recommendation**

We recommend MCCMHS adopt policies and procedures to ensure compliance with the FSR instructions, and proper revenue and expenditure reporting.

### **Finding 6.**

#### **Financial Status Report Differences – SSI Revenue for GF Services**

MCCMHS inaccurately reported SSI Revenue for 100% Matchable GF Services as reimbursements for 90/10 GF Services on the FYE 9/30/2000 FSR.

Attachment 8.9.1 of the MSSSC, Section 2.4.3, Row L states, in part, “Expenditures for this section must also be reported on the basis of the matchable nature of the service – e.g. 90/10 or 100% State funding and must work down to a State share amount.” MCCMHS reported \$20,176 in Reimbursements (Row L-5) for 90/10 Matchable Services that should have been reported in All SSI and Other Reimbursements (Row L-2) for 100% MDCH Matchable Services. Consequently, MDCH’s share of GF expenditures was overstated by \$2,018.

Audit adjustments increasing the GF 100% Matchable Services, All SSI and Other Reimbursements, and decreasing the GF 90/10 Matchable Services, Reimbursements for \$20,176 are shown on Schedules D and E.

### **Recommendation**

We recommend MCCMHS adopt policies and procedures to ensure compliance with the FSR instructions, and proper revenue and expenditure reporting.

### **Finding 7.**

#### **Financial Status Report Differences – Food Stamp Program**

MCCMHS inaccurately reported Indian Bay Residence food stamp revenues and expenditures on the FYE 9/30/1999 FSR, and inaccurately reported food stamp revenues on the FYE 9/30/2000 FSR.

MCCMHS inaccurately reported expenses related to the Indian Bay Residence food stamp program as Other Earned Contracts (Row D-2) on the FYE 9/30/1999 FSR. The expenses should have been reported as GF 100% Matchable Services – All SSI and Other Reimbursements (Row L-2) on the FSR. The MSSSC, Attachment 8.9.1, Part 2.4.3, Row L-1 states, in pertinent part, “100% MDCH Matchable Services – All expenditures eligible for 100% state funding including the total in-home cost for specialized residential services...”. Row L-2 states, “SSI and Reimbursements – Identify the portion of these expenditures supported by SSI and other reimbursements.”

MCCMHS inaccurately reported food stamp revenue on the FYE 9/30/1999 FSR and the FYE 9/30/2000 FSR as Revenues Not Otherwise Reported. The revenue should have been reported as SSI Reimbursements (Row I-2) on the FSR. The MSSSC, Attachment 8.9.1, Part 2.3.2, Row I-2, states, in pertinent part, “SSI - The amount of revenue received by the CMHSP from client supplemental security income benefits for the cost of the consumer’s daily care and allowances.”

Audit adjustments decreasing Expenditures - Other Earned Contracts (Row D-2) and increasing Expenditures - GF 100% Matchable Services - All SSI and Other Reimbursement (Row L-2) for \$8,315 for FYE 9/30/1999 are shown on Schedules A and B.

Audit adjustments decreasing Revenues Not Otherwise Reported (Row A) and increasing Reimbursements – SSI (Row I-2) for \$8,315 are shown on Schedules A and B.

Audit adjustments decreasing Revenues Not Otherwise Reported (Row A) and increasing Reimbursements – SSI (Row I-2) for \$3,699 are shown on Schedules D and E.

### **Recommendation**

We recommend MCCMHS adopt policies and procedures to ensure compliance with the FSR instructions, and proper revenue and expenditure reporting.

### **Finding 8.**

#### **Internal Service Fund**

MCCMHS improperly established, funded, and maintained an Internal Service Fund (ISF) for risk reserve.

The MSSSC, Attachment 8.8.4.1, General Provisions, Section C, states, in pertinent part, "When establishing an ISF, the CMHSP may apply any method it considers appropriate to determine the amounts to be charged to the various funds covered by the ISF provided that: ...2. The estimated liability is computed based on an actuarial method or historical cost information as provided under Office of Management and Budget (OMB) Circular A-87, Attachment B, paragraph 25(d)...". OMB Circular A-87, Attachment B, Paragraph 25(d), part (3) states, "Contributions to reserves must be based on sound actuarial principles using historical experience and reasonable assumptions." The MSSSC, Attachment 8.8.4.1, General Provisions, Section D, states, "Non-compliance with the provisions of GASB Statement No. 10 and OMB Circular A-87 relative to any applicable matter herein will cause the ISF charges to be unallowable for the purposes of the MDCH/CMHSP Contract." Furthermore, the MSSSC, Attachment 8.8.4.1, General Provisions, Section E, states, "The CMHSP shall not commingle the ISF with funds of other departments, agencies, governmental funds or entities. The ISF shall not be used to finance any activities or costs other than ISF eligible expenses."

The \$2,128,064 reported on the FYE 9/30/1999 FSR to fund the Internal Service Fund equaled the remaining balance of the interim payments MCCMHS received for Medicaid and General Fund services over the year's expenditures. MCCMHS did not use a historical cost analysis or actuarial study to establish the ISF as required by the MSSSC and OMB Circular A-87. Furthermore, MCCMHS's ISF funds were maintained in the County's general investment fund with other County monies held for investment in violation of the MSSSC. Audit adjustments removing \$2,128,064 from matchable expenditures in FYE 9/30/1999 are shown on Schedules A and B.

The MSSSC, Attachment 8.8.4.1, General Provisions, Section N, states that reductions of the ISF shall occur through refunds in accordance with OMB Circular A-87, Attachment B, paragraph 25(d)(5), which states, in pertinent part, "...refunds shall be made...including earned or imputed interest....". MCCMHS reported total interest income on the disallowed ISF funds of \$257,093. The interest income earned per year was \$104,451 for FYE 9/30/2000, \$123,434 for FYE 9/30/2001 and \$29,208 for FYE 9/30/2002 (through the 2/5/2002 posting date). MCCMHS must submit the net interest earned on the disallowed ISF funds to MDCH. Based upon the original ISF allocation, the amount due MDCH is \$248,506. Additionally, interest earned subsequent to 2/5/2002 should also be refunded to MDCH at the applicable allocation percentage of 96.66%. The remaining balance of 3.34% is the local percentage of the original ISF allocation.

### **Recommendation**

We recommend MCCMHS adopt policies and procedures to ensure that the establishment of an ISF complies with the MSSSC and OMB Circular A-87. We also recommend MCCMHS ensure any future ISF funds are maintained in a separate fund that is not commingled with funds of other departments, agencies, governmental funds or entities to ensure these funds are expended only for ISF eligible expenses.



## **Finding 9.**

### **Capital Purchases**

MCCMHS did not properly report the purchases of vehicles, office equipment and other assets on the FYE 9/30/1999 FSR and FYE 9/30/2000 FSR in compliance with the MSSSC and OMB Circular A-87.

Section 8.6 of the MSSSC states, “The following documents shall guide program accounting procedures: ...3. OMB A-87 (current standards).” OMB Circular A-87, Attachment B, Section 15, states, “Depreciation and use allowances are means of allocating the cost of fixed assets to periods benefiting from asset use. Compensation for the use of fixed assets on hand may be made through depreciation or use allowances.” OMB Circular A-87, Attachment B, Section 19, Sub-section a. (2), states, ““Equipment” means an article of nonexpendable, tangible personal property having a useful life of more than one year and an acquisition cost which equals the lesser of (a) the capitalization level established by the governmental unit for financial statement purposes, or (b) \$5,000.” OMB Circular A-87, Attachment B, Section 19, Sub-sections b. and c. state: “...b. Capital expenditures which are not charged directly to a Federal award may be recovered through use allowances or depreciation on buildings, capital improvements, and equipment...c. Capital expenditures for equipment, including replacement equipment or other capital assets, and improvements which materially increase the value or useful life of equipment or other capital assets are allowable as a direct cost when approved by the awarding agency.” Approval to charge capital expenditures as a direct cost was not granted by the awarding agency. Therefore, OMB Circular A-87 allows for the recovery of capital expenditure costs through use allowances or depreciation.

Additionally, Attachment 8.9.1 of the MSSSC, Section 1.3 – Financial Status Report, states, in part, “With the exception of P.A. 423 Grant Funds, all reported revenue and expenditure information is required to be provided on an accrual basis of accounting. This accrual basis is expected to recognize all revenues and expenditures through the reporting periods.” The accrual basis of accounting requires capital asset purchases to be capitalized and depreciated over their useful lives.

Rather than using accrual accounting and reporting depreciation for the cost of fixed assets, MCCMHS reported the full cost of equipment and fixtures in the year of acquisition on the FYE 9/30/1999 and FYE 9/30/2000 FSRs. Audit adjustments for FYE 9/30/1999 removing \$649,394 from reported expenditures and adding \$39,287 for allowable depreciation are shown on Schedules A and B. Audit adjustments for FYE 9/30/2000 removing \$914,249 from reported expenditures and adding \$183,402 for allowable depreciation are shown on Schedules D and E.

### **Recommendation**

We recommend MCCMHS adopt policies and procedures to ensure all capital asset purchases are capitalized and expensed in compliance with the MSSSC and OMB Circular A-87.

### **Finding 10.**

#### **Legal Fees**

MCCMHS reported unallowable legal fees on the FYE 9/30/2000 FSR.

OMB Circular A-87, Attachment A, Section C. Basic Guidelines, states, “1. Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria: a. Be necessary and reasonable for proper and efficient performance and administration of Federal awards.” In determining whether costs are reasonable, OMB Circular A-87 lists several factors that must be considered. Section C.2.a. states, “In determining reasonableness of a given cost, consideration shall be given to whether the cost is of a type generally recognized as ordinary and necessary for the operation of the governmental unit or the performance of the Federal award.” OMB Circular A-87, Attachment B, Section 33 (a) states, "Cost of professional and consultant services rendered by persons or organizations that are members of a particular profession or possess a special skill, whether or not officers or employees of the governmental unit, are allowable, subject to section 14 when reasonable in relation to the services rendered and when not contingent upon recovery of the costs from the Federal Government." Section 14 (b) states, "Legal expenses

required in the administration of Federal programs are allowable. Legal expenses for prosecution of claims against the Federal Government are unallowable."

MCCMHS initiated a lawsuit against the State and Federal governments to prevent the implementation of the State of Michigan's plan to privatize the mental health services for Medicaid and State General Fund consumers. The legal expenses related to the lawsuit to prevent privatization were not required in, or related to, the administration of the Federal program. Consequently, they were not necessary and reasonable for proper and efficient performance and administration of the Federal award. Therefore, the legal expenses related to the lawsuit to prevent privatization are not allowable. Audit adjustments removing \$87,892 from the FYE 9/30/2000 reported expenditures are shown on Schedules D and E.

### **Recommendation**

We recommend MCCMHS adopt policies and procedures to ensure only allowable expenditures are reported on the FSRs.

### **Finding 11.**

#### **Lobbying Expenses**

MCCMHS reported unallowable lobbying expenses on the FYE 9/30/1999 and FYE 9/30/2000 FSRs.

OMB Circular A-87, Attachment B, Section 27, states, "The cost of certain influencing activities associated with obtaining grants, contracts, cooperative agreements, or loans is an unallowable cost."

Prior to the above referenced (Finding 10) lawsuit against the State and Federal governments to prevent the implementation of the State of Michigan's plan to privatize the mental health services for Medicaid and State General Fund consumers, MCCMHS took actions to attempt to "persuade the state of the problems with their plan for system change in the mental health services." According to a June 28, 2004 letter from the Executive Director of MCCMHS, "We employed several strategies, all of which were guided by counsel. We engaged in

conversations with politicians so that they would be educated on the issues. We arranged meetings with County Commissions outside Muskegon in order to further understanding. We formulated alternative approaches and various scenarios we believed would be useful to community leaders. The strategy here was to reach a position of strength from which CMH's and counties could negotiate a more practicable approach with the State. As part of this process, Corporate Counsel led Muskegon staff in an effort to prepare a position paper which was distributed to State officials, legislators, commissioners, and other community leaders. This statement of our position was intended as a political strategy to achieve a negotiative position in contract discussions with the State." The legal expenses incurred in developing this position paper are unallowable as they are considered influencing activities associated with obtaining a grant. Audit adjustments removing \$1,893 from the FYE 9/30/1999 reported expenditures are shown on Schedules A and B. Audit adjustments removing \$5,558 from the FYE 9/30/2000 reported expenditures are shown on Schedules D and E.

### **Recommendation**

We recommend MCCMHS adopt policies and procedures to ensure only allowable expenditures are reported on the FSRs.

### **Finding 12.**

#### **Payroll Expenses**

MCCMHS improperly reported wages and fringe benefits expenses on the FYE 9/30/1999 and FYE 9/30/2000 FSRs.

OMB Circular A-87, Attachment A, Section C, 1. states, "Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria: ...f. Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost...j. Be adequately documented." OMB Circular A-87, Attachment B, Section 11, h. states, "Support of salaries and wages. These standards regarding time distribution are in addition to the standards for payroll documentation...(4) Where employees work on multiple activities or cost objectives, a

distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a sampling system ... has been approved by the cognizant Federal agency...(5) Personnel activity reports or equivalent documentation must meet the following standards: (a) They must reflect an after-the-fact distribution of the actual activity of each employee, (b) They must account for the total activity for which each employee is compensated, (c) They must be prepared at least monthly and must coincide with one or more pay periods, and (d) They must be signed by the employee.” MCCMHS’s reported wages and fringe benefits expenses were not “accorded consistent treatment” by Muskegon County, nor were they supported by personnel activity reports or equivalent documentation as required by OMB Circular A-87 as explained below.

The county of Muskegon directly allocated the wages and fringe benefits of two employees in the Human Resources Department to MCCMHS. The employees involved were assigned the duties of processing all necessary MCCMHS related personnel issues, but also performed other duties for other County departments. The net cost of the Human Resources Department was then allocated at year-end to all County departments, including MCCMHS, based upon the number of personnel. The county of Muskegon also utilized certain employees of MCCMHS to perform duties on a consistent basis that were not related to MCCMHS, but their full wages and fringe benefits were expensed to MCCMHS. Personnel activity reports, or equivalent documentation, were not in use. The employees involved were asked to estimate the percentage of time spent on non-MCCMHS duties, and audit adjustments were made according to the estimates provided. Audit adjustments reducing allowable costs for these non-MCCMHS related expenses by \$63,326 for FYE 9/30/1999 are shown on Schedules A and B, and \$48,728 for FYE 9/30/2000 are shown on Schedules D and E.

### **Recommendation**

We recommend MCCMHS adopt policies and procedures to ensure that the cost of services rendered by staff of MCCMHS to other County Departments be removed from the general ledger expenses and charged back to the Department benefiting from the services. We also recommend MCCMHS adopt policies and procedures to prevent the direct allocation of wages and benefits to MCCMHS when costs for the same purpose in like circumstances are

allocated through the year-end Cost Allocation Plan. We also recommend MCCMHS adopt policies and procedures to require employees who work on multiple activities or cost objectives to complete personnel activity reports or equivalent documentation which meets the standards of OMB Circular A-87.

**Finding 13.**

**Year-end Allocation of County Expenditures**

MCCMHS reported costs for FYE 9/30/1999 and FYE 9/30/2000 that included inappropriately allocated costs from Muskegon County.

As a result of incorrect cost allocations from Muskegon County's Cost Allocation Plans, MCCMHS overstated reported costs by \$103,060 for FYE 9/30/1999, and \$183,632 for FYE 9/30/2000. The incorrect cost allocations are described below:

- A. The county of Muskegon incorrectly allocated depreciation on the main office building used by MCCMHS in excess of the amount allowed under the provisions of OMB Circular A-87, Attachment B, Section 15 for FYE 9/30/1999 and FYE 9/30/2000. The estimated useful lives of the building components and improvements were changed in error on the depreciation schedules maintained by the County, which resulted in an incorrect depreciation allocation on the County's year-end Cost Allocation Plan. The County made an adjustment in the MCCMHS general ledger during FYE 9/30/2001 to correct the excess amounts previously charged. OMB Circular A-87, Attachment B, Section 15 subsection e. states, in pertinent part, "Depreciation methods once used shall not be changed unless approved by the Federal cognizant or awarding agency. When the depreciation method is introduced for application to an asset previously subject to a use allowance, the annual depreciation change thereon may not exceed the amount that would have resulted had the depreciation method been in effect from the date of acquisition of the asset." Audit adjustments reducing reported expenditures by \$52,203 for both FYE 9/30/1999 and FYE 9/30/2000 are shown on Schedules A, B, D and E.

- B. The Cost Allocation Plan for FYE 9/30/1999 and 9/30/2000 included depreciation for capital assets purchased by MCCMHS, which were also included, in total, in the claimed operating expenses on the submitted FSRs for the years under audit as well as periods covered by the prior cost reimbursement methodology. The county of Muskegon capitalized 10% of the total cost of the assets purchased by MCCMHS as assets belonging to Muskegon County. The 10% was their Local Match requirement. These assets were then depreciated and charged directly to MCCMHS through the Cost Allocation Plan. The Local Match responsibility for costs, as determined through the FSR cost settlement process, should not be included again as an allowable cost of the County. OMB Circular A-87, Attachment A, Section C, Sub-section 1, states, "Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria: ...h. Not be included as a cost or used to meet cost sharing or matching requirements of any other Federal award in either the current or a prior period, except as specifically provided by Federal law or regulation." Audit adjustments removing this claimed depreciation of \$74,516 for FYE 9/30/1999 are shown on Schedules A and B, and \$131,429 for FYE 9/30/2000 are shown on Schedules D and E.
- C. The FYE 9/30/1999 Cost Allocation Plan contained an error in the Purchasing Department statistics. As a result, the amount of expenses allocated to the MCCMHS for FYE 9/30/1999 was understated. OMB Circular A-87, Attachment A, Section C, Subsection 3. Allocable Costs, a, states, "A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received." The County made an adjustment to report the correct amount in the MCCMHS general ledger during FYE 9/30/2001. Audit adjustments increasing reported expenditures \$23,659 for FYE 9/30/1999 are shown on Schedules A and B.

### **Recommendation**

We recommend MCCMHS adopt policies and procedures to ensure that all costs allocated by Muskegon County through the year-end Cost Allocation Plan are accurate and allowable under the MSSSC and OMB Circular A-87 and are directly related to services performed for the MCCMHS.

#### **Finding 14.**

##### **Overpayments for Less Than Arms Length Lease Arrangements**

MCCMHS overpaid Muskegon County for the rental of office buildings. MCCMHS also did not have contracts with Muskegon County for any of the office buildings owned by Muskegon County and utilized by MCCMHS.

Section 4.7.6.2 of the MSSSC states, in pertinent part, "...subcontracts entered into by the CMHSP shall consider the following ...7. Payment arrangements...". However, MCCMHS did not have any contracts with Muskegon County for use of office buildings owned by Muskegon County. As a result, it was unclear which expenses were to be included in the monthly rental charges from Muskegon County and which were the direct responsibility of MCCMHS. Due to the lack of contracts, charges from Muskegon County to MCCMHS for the use of the buildings could not be disputed by MCCMHS. The lack of clearly defined contracts led to the overcharging of rental expenses for the office buildings.

MCCMHS overpaid Muskegon County rental costs of \$70,561 in FYE 9/30/1999, and \$59,502 in FYE 9/30/2000 as explained below:

- A. The county of Muskegon rented office space at the South Campus location to various county departments including MCCMHS for FYE 9/30/1999 and FYE 9/30/2000. The underlying costs incurred by Muskegon County were charged to the various departments as rental costs. The monthly rental expense to MCCMHS included the full purchase price of several capital asset purchases rather than an amount for depreciation. OMB Circular A-87, Attachment B, Section 38, paragraph c., states, in pertinent part, "Rental costs under less-than-arms-length leases are allowable only up to the amount that would be allowed had title to the property vested in the governmental unit. For this purpose, less-than-arms-length leases include, but are not limited to, those where: ...(2) Both parties are parts of the same governmental unit...". Muskegon County and MCCMHS's rental arrangement is clearly a less-than-arms-length transaction. Therefore, MCCMHS's allowable rental costs from Muskegon County are limited to costs that would be allowed



had title to the rental property vested in MCCMHS. Had title to the rental property vested in MCCMHS, allowable costs for capital asset purchases would be a depreciation amount rather than the full purchase price according to OMB Circular A-87 as previously addressed in Finding 9. Audit adjustments removing the purchase price of the capital assets and allowing an appropriate depreciation amount for a net reduction in reported expenditures of \$66,951 in FYE 9/30/1999 are shown on Schedules A and B, and \$15,692 in FYE 9/30/2000 are shown on Schedules D and E.

- B. The county of Muskegon purchased an office building for use by MCCMHS. Muskegon County was charging MCCMHS 1% of the appraised price per month as rent, not the allowable depreciation based upon purchase agreements less the cost of the land, which is a violation of OMB Circular A-87 as stated above. Audit adjustments removing the overpayment of rent in excess of net allowable underlying costs of \$3,610 for FYE 9/30/1999 is shown on Schedules A and B and \$43,810 for FYE 9/30/2000 is shown on Schedules D and E.

### **Recommendation**

We recommend MCCMHS adopt policies and procedures to ensure MCCMHS obtain signed rental agreements that clearly state payment arrangements in compliance with OMB Circular A-87 for all rental property.

## MDCH'S SHARE OF COSTS AND BALANCE DUE MDCH

**Objective 3:** To determine MDCH's share of costs in accordance with applicable MDCH requirements and agreements, and any balance due to or due from MCCMHS.

**Conclusion:** MDCH's obligations for FYE 9/30/1999 and FYE 9/30/2000 (excluding the MICHild capitated funds, MDCH Earned Contracts, and Children's Waiver funds) after audit adjustments are \$27,467,264 and \$29,515,716, respectively. MCCMHS owes the MDCH a balance of \$4,207,549 after considering advances, prior settlements, and other adjustments as summarized below:

FYE 9/30/1999 MDCH Advances in Excess of MDCH Obligation (Schedule C)	\$ 2,935,925
FYE 9/30/1999 Prior Settlement (Schedule C)	(74,862)
FYE 9/30/1999 Children's Waiver Due to MDCH (See Finding 4)	3,191
FYE 9/30/2000 MDCH Advances in Excess of MDCH Obligation (Schedule F)	1,902,958
FYE 9/30/2000 Prior Settlement (Schedule F)	(808,169)
Interest Earned on the Disallowed ISF through 2/5/2002 (See Finding 8) **	<u>248,506</u>
Total Balance Due to MDCH **	<u>\$ 4,207,549</u>

\*\* MCCMHS must also pay MDCH for interest earned on the ISF subsequent to 2/5/2002.

Muskegon County Community Mental Health Services  
Schedule A  
Financial Status Report  
October 1, 1998 through September 30, 1999

REVENUES	Reported Amount	Audit Adjustments	Adjusted Amount
A. Revenues Not Otherwise Reported	\$ 25,969	\$ (8,315)	\$ 17,654
B. Substance Abuse Total	\$ 1,428,779	\$ -	\$ 1,428,779
1 Medicaid Pass Through	\$ 1,428,779	\$ -	\$ 1,428,779
2 Other	\$ -	\$ -	\$ -
C. Earned Contracts (non DCH) Total	\$ 186,003	\$ -	\$ 186,003
1 CMH to CMH	\$ 144,814	\$ -	\$ 144,814
2 Other	\$ 41,189	\$ -	\$ 41,189
D. MI Child - Mental Health	\$ 6,213	\$ -	\$ 6,213
E. Local Funding Total	\$ 1,276,077	\$ -	\$ 1,276,077
1 Special Fund Account (226(a))	\$ 32,747	\$ -	\$ 32,747
2 Title XX Replacement	\$ 6,412	\$ -	\$ 6,412
3 All Other	\$ 1,236,918	\$ -	\$ 1,236,918
F. Reserve Balances - Planned for use	\$ 98,515	\$ -	\$ 98,515
1 Carryforward –Section 226(2)(b)(c)	\$ 98,515	\$ -	\$ 98,515
2 Internal Service Fund	\$ -	\$ -	\$ -
3 Other (205(4)(h))	\$ -	\$ -	\$ -
4 Stop/loss Insurance	\$ -	\$ -	\$ -
G. DCH Earned Contracts Total	\$ 112,118	\$ -	\$ 112,118
1 PASARR	\$ 27,508	\$ -	\$ 27,508
2 Block Grant for CMH Services	\$ 33,700	\$ -	\$ 33,700
3 DD Council Grants	\$ -	\$ -	\$ -
4 PATH/Homeless	\$ 50,910	\$ -	\$ 50,910
5 Prevention	\$ -	\$ -	\$ -
6 Aging	\$ -	\$ -	\$ -
7 HUD Shelter Plus Care	\$ -	\$ -	\$ -
8 Other DCH Earned Contracts	\$ -	\$ -	\$ -

Muskegon County Community Mental Health Services  
Schedule A  
Financial Status Report  
October 1, 1998 through September 30, 1999

REVENUES	Reported Amount	Audit Adjustments	Adjusted Amount
H. Gross Medicaid Total	\$ 23,456,930	\$ 3,191	\$ 23,460,121
1 Medicaid - Specialty Managed Care	\$ 22,990,308	\$ -	\$ 22,990,308
2 Medicaid - Children's Waiver Total	\$ 466,622	\$ 3,191	\$ 469,813
I. Reimbursements Total	\$ 1,447,003	\$ 8,315	\$ 1,455,318
1 1st and 3 <sup>rd</sup> Party	\$ -	\$ -	\$ -
2 SSI	\$ 1,447,003	\$ 8,315	\$ 1,455,318
J. State General Funds Total	\$ 6,989,508	\$ 423,373	\$ 7,412,881
1 Formula Funding	\$ 5,588,024	\$ 828,735	\$ 6,416,759
2 Categorical Funding	\$ 29,531	\$ (10,231)	\$ 19,300
3 State Services Base	\$ 1,371,953	\$ (395,131)	\$ 976,822
4 DCH Risk Authorization	\$ -	\$ -	\$ -
5 Residential D.C.W.	\$ -	\$ -	\$ -
K. Grand Total Revenues	\$ 35,027,115	\$ 426,564	\$ 35,453,679
L. Estimated MDCH Obligation (G+H+J)	\$ 30,558,556	\$ 426,564	\$ 30,985,120

Muskegon County Community Mental Health Services  
Schedule A  
Financial Status Report  
October 1, 1998 through September 30, 1999

<u>EXPENDITURES</u>	<u>Reported Amount</u>	<u>Audit Adjustments</u>	<u>Adjusted Amount</u>
A. Gross Total Expenditures	\$ 35,027,115	\$ (2,978,745)	\$ 32,048,370
B. Expenditures Not Otherwise Reported	\$ -	\$ -	\$ -
C. Substance Abuse Total	\$ 1,428,779	\$ -	\$ 1,428,779
1 Medicaid Pass Through	\$ 1,428,779	\$ -	\$ 1,428,779
2 Other	\$ -	\$ -	\$ -
D. Earned Contracts (Non MDCH) Total	\$ 211,973	\$ (8,315)	\$ 203,658
1 CMH to CMH	\$ 144,814	\$ -	\$ 144,814
2 Other Earned Contracts	\$ 67,159	\$ (8,315)	\$ 58,844
E. MI Child - Mental Health	\$ 6,213	\$ -	\$ 6,213
F. Local Total	\$ 226,356	\$ -	\$ 226,356
1 Local Cost for State Provided Services	\$ 226,356	\$ -	\$ 226,356
2 Other Not Used as Local Match	\$ -	\$ -	\$ -
G. Expenditures From Reserve Balances	\$ 98,515	\$ -	\$ 98,515
1 Carryforward - Sec 226(2)(b)(c)	\$ 98,515	\$ -	\$ 98,515
2 Internal Service Fund	\$ -	\$ -	\$ -
3 Other (205(4)(h))	\$ -	\$ -	\$ -
4 Stop/Loss Ins.	\$ -	\$ -	\$ -

Muskegon County Community Mental Health Services  
Schedule A  
Financial Status Report  
October 1, 1998 through September 30, 1999

<u>EXPENDITURES</u>	<u>Reported Amount</u>	<u>Audit Adjustments</u>	<u>Adjusted Amount</u>
H. MDCH Earned Contracts Total	\$ 112,118	\$ -	\$ 112,118
1 PASARR	\$ 27,508	\$ -	\$ 27,508
2 Block Grant for CMH Services	\$ 33,700	\$ -	\$ 33,700
3 DD Council Grants	\$ -	\$ -	\$ -
4 PATH/Homeless	\$ 50,910	\$ -	\$ 50,910
5 Prevention	\$ -	\$ -	\$ -
6 Aging	\$ -	\$ -	\$ -
7 HUD Shelter Plus Care	\$ -	\$ -	\$ -
8 Other MDCH Earned Contracts	\$ -	\$ -	\$ -
I. Matchable Services (A-(B through H))	\$ 32,943,161	\$ (2,970,430)	\$ 29,972,731
J. Payments to MDCH for State Services	\$ 1,371,953	\$ (93,430)	\$ 1,278,523
K. Specialty Managed Care Service Total	\$ 23,654,553	\$ (2,217,168)	\$ 21,437,385
1 100% MDCH Matchable Services	\$ 9,728,509	\$ (872,717)	\$ 8,855,792
2 All SSI and Other Reimbursements	\$ 5,822	\$ -	\$ 5,822
3 Net MDCH Share for 100 % Services	\$ 9,722,687	\$ (872,717)	\$ 8,849,970
4 90/10 Matchable Services	\$ 13,926,044	\$ (1,344,451)	\$ 12,581,593
5 Medicaid Federal Share	\$ 7,341,810	\$ (708,795)	\$ 6,633,016
6 Other Reimbursements	\$ -	\$ -	\$ -
7 10% Local Match Funds	\$ 658,423	\$ (63,566)	\$ 594,858
8 Net State Share for 90/10 Services	\$ 5,925,811	\$ (572,091)	\$ 5,353,719
9 Total MDCH Share, Spec. Mgd Care	\$ 22,990,308	\$ (2,153,602)	\$ 20,836,705

Muskegon County Community Mental Health Services  
Schedule A  
Financial Status Report  
October 1, 1998 through September 30, 1999

EXPENDITURES	Reported Amount	Audit Adjustments	Adjusted Amount
L. GF Categorical and Formula Services Total	\$ 7,450,033	\$ (659,832)	\$ 6,790,201
1 100% MDCH Matchable Services	\$ 3,515,882	\$ (283,802)	\$ 3,232,080
2 All SSI and Other Reimbursements	\$ 1,420,008	\$ 8,315	\$ 1,428,323
3 Net GF and Formula for 100% Services	\$ 2,095,874	\$ (292,117)	\$ 1,803,757
4 90/10 Matchable Services	\$ 3,934,151	\$ (376,030)	\$ 3,558,121
5 Reimbursements	\$ 21,173	\$ -	\$ 21,173
6 10% Local Match Funds	\$ 391,298	\$ (37,603)	\$ 353,695
7 Net GF and Formula for 90/10 Services	\$ 3,521,680	\$ (338,427)	\$ 3,183,253
8 Total MDCH GF and Formula	\$ 5,617,554	\$ (630,544)	\$ 4,987,010
 M. Children's Waiver – Total	 \$ 466,622	 \$ -	 \$ 466,622
1 Medicaid - Federal Share	\$ 246,003	\$ -	\$ 246,003
2 Other Reimbursements	\$ (3,191)	\$ 3,191	\$ -
3 Net State Share (M-M1-M2)	\$ 223,810	\$ (3,191)	\$ 220,619
4 Total MDCH Share Children's Waiver	\$ 469,813	\$ (3,191)	\$ 466,622
 N. Unobligated Spending Authority Total	 \$ -	 \$ -	 \$ -
1 DCH Risk Authorization	\$ -	\$ -	\$ -
2 All Other	\$ -	\$ -	\$ -
 O. Total Local Match Funds	 \$ 1,049,721	 \$ (101,169)	 \$ 948,553
 P. Total MDCH Share of Expenditures	 \$ 30,449,628	 \$ (2,880,767)	 \$ 27,568,860

Schedule B  
Explanation of Audit Adjustments  
October 1, 1998 to September 30, 1999

**Revenues Not Otherwise Reported** **(\$8,315)**

To reclassify (\$8,315) in Food Stamp Revenue to Reimbursements – SSI for the proper reporting of revenues. (See Finding 7)

**Medicaid – Children’s Waiver Total** **\$3,191**

\$3,191 to increase the amount reported on the Financial Status Report (FSR) for Medicaid - Children’s Waiver to the amount supported by the general ledger. (See Finding 5)

**Reimbursements - SSI** **\$8,315**

To reclassify \$8,315 in Food Stamp Revenue from Revenues Not Otherwise Reported for the proper reporting of revenues. (See Finding 7)

**State General Fund Total** **\$423,373**

\$423,373 to increase Formula Funding and the State General Funds Total to reflect funds received from MDCH. (See Finding 4)

To reclassify \$10,231 to GF - Formula Funding from GF - Categorical Funding for proper reporting of revenues. (See Finding 4)

To reclassify \$395,131 to GF-Formula Funding from GF-State Services Base for proper reporting of revenues. (See Finding 4)



**Gross Total Expenditures****(\$2,978,745)**

(\$1,734) to reduce the amounts reported for State facilities on the FSR to the amounts supported by the MDCH Accounting Division Records. (See Finding 3)

(\$2,128,064) to reduce the amount reported for the disallowed Internal Service Fund. (See Finding 8)

(\$649,394) to remove capital assets expensed in error. (See Finding 9)

\$39,287 to record depreciation expense on capital assets. (See Finding 9)

(\$1,893) to remove lobbying expenditures. (See Finding 11)

(\$63,326) to remove wages paid for non-CMH related services. (See Finding 12)

(\$52,203) to reduce depreciation claimed on the Halmond Center Building in excess of the allowable amount per the County maintained depreciation schedule. (See Finding 13 A)

(\$74,516) to remove depreciation claimed on equipment purchased by MCCMHS that was already reported on the filed FSRs of the prior and the current fiscal years. (See Finding 13 B)

\$23,659 to increase expenditures for amounts incorrectly allocated through the County Cost Allocation Plan. (See Finding 13 C)

(\$66,951) to reduce the claimed expenditures for the Halmond Center Building to the allowable underlying cost. (See Finding 14 A)

(\$3,610) to reduce the claimed expenditures for the Peck Street Building to the allowable underlying cost. (See Finding 14 B)

**Earned Contracts (Non-DCH) Other** **(\$8,315)**

(\$8,315) to decrease the earned contract expenditures related to the food stamp revenue received at Indian Bay. (See Finding 7)

**Payments to MDCH for State Services** **(\$93,430)**

(\$442) to reduce the amounts reported for State facilities on the FSR to the amounts supported by the MDCH Accounting Division Records. (See Finding 3)

(\$92,988) to reduce the amount reported for the disallowed Internal Service Fund. (See Finding 8)

**Specialty Managed Care Service Total** **(\$2,217,168)**

(\$1,601,837) to reduce the amount reported for the disallowed Internal Service Fund. (See Finding 8)

(\$457,027) to remove capital assets expensed in error. (See Finding 9)

\$26,550 to record depreciation expense on capital assets. (See Finding 9)

(\$1,893) to remove lobbying expenditures. (See Finding 11)

(\$48,791) to remove wages paid for non-CMH related services. (See Finding 12)

(\$40,130) to reduce depreciation claimed on the Halmond Center Building in excess of the allowable amount per the County maintained depreciation schedule. (See Finding 13 A)

(\$57,282) to remove depreciation claimed on equipment purchased by MCCMHS that was already reported on the filed FSRs of the prior and the current fiscal years. (See Finding 13 B)

\$18,188 to increase expenditures for amounts incorrectly allocated through the County Cost Allocation Plan. (See Finding 13 C)

(\$52,165) to reduce the claimed expenditures for the Halmond Center Building to the allowable underlying cost. (See Finding 14 A)

(\$2,781) to reduce the claimed expenditures for the Peck Street Building to the allowable underlying cost. (See Finding 14 B)

**GF Categorical and Formula Services Total** **(\$659,832)**

(\$1,292) to eliminate the amount incorrectly transferred from the State facilities line item on the FSR. (See Finding 3)

\$8,315 to increase the expenditures related to the food stamp revenue received at Indian Bay. (See Finding 7)

(\$433,239) to reduce the amount reported for the disallowed Internal Service Fund. (See Finding 8)

(\$192,367) to remove capital assets expensed in error. (See Finding 9)

\$12,737 to record depreciation expense on capital assets. (See Finding 9)

(\$14,535) to remove wages paid for non-CMH related services. (See Finding 12)

(\$12,073) to reduce depreciation claimed on the Halmond Center Building in excess of the allowable amount per the County maintained depreciation schedule. (See Finding 13 A)

(\$17,234) to remove depreciation claimed on equipment purchased by MCCMHS that was already reported on the filed FSRs of the prior and the current fiscal years. (See Finding 13 B)

\$5,471 to increase expenditures for amounts incorrectly allocated through the County Cost Allocation Plan. (See Finding 13 C)

(\$14,786) to reduce the claimed expenditures for the Halmond Center Building to the allowable underlying cost. (See Finding 14 A)

(\$829) to reduce the claimed expenditures for the Peck Street Building to the allowable underlying cost. (See Finding 14 B)

<b>All SSI and Other Reimbursement</b>	<b>\$8,315</b>
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\$8,315 to increase the other reimbursements to include the food stamp revenue received at Indian Bay. (See Finding 7)

<b>Children's Waiver Other Reimbursements</b>	<b>\$3,191</b>
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\$3,191 to increase the amount reported on the FSR for Children's Waiver - Other Reimbursements to the amount supported by the general ledger. (See Finding 5)

**Children's Waiver Net State Share****(\$3,191)**

(\$3,191) to decrease the amount reported on the FSR for Children's Waiver - Net State Share to the amount supported by the FSR calculation. (See Finding 5)

**Local Total Other****(\$101,169)**

To reduce the Local Match Funds required based upon the audit findings in the Specialty Managed Care Services and the GF Categorical and Formula Services calculations.

Muskegon County Community Mental Health Services  
Schedule C  
Contract Reconciliation and Cash Settlement Summary  
October 1, 1998 through September 30, 1999

I. Maintenance of Effort (MOE)	Total Authorization	Medicaid Expenditures	General Fund Expenditures	Carryforward or Savings	Total MDCH Share
A. MOE – Expenditures					
1 Ethnic Population	\$ 104,600	\$ 248,200	\$ 57,057	\$ -	\$ 305,257
2 OBRA Active Treatment	\$ 153,370	\$ 94,322	\$ 3,653	\$ 7,668	\$ 105,643
3 OBRA Residential	\$ 142,718	\$ 239,316	\$ -	\$ -	\$ 239,316
4 Residential Direct Care Wage Increase #1 - 100% MOE	\$ 531,180	\$ 361,060	\$ 170,120	\$ -	\$ 531,180
5 Residential Direct Care Wage Increase #2 - 100% MOE	\$ 198,641	\$ 148,935	\$ 35,429	\$ -	\$ 184,364
6 Total	<u>\$ 1,130,509</u>	<u>\$ 1,091,833</u>	<u>\$ 266,259</u>	<u>\$ 7,668</u>	<u>\$ 1,365,760</u>
7 Maintenance of Effort - Lapse					<u>\$ 62,004</u>
B. Reallocation of MOE Authorization	MOE Authorization	Medicaid Percentage	General Fund Percentage	Medicaid	General Fund
1 Ethnic Population	\$ 104,600	81.31%	18.69%	\$ 85,049	\$ 19,551
2 OBRA Active Treatment	\$ 153,370	96.27%	3.73%	\$ 147,652	\$ 5,718
3 OBRA Residential	\$ 142,718	100.00%	0.00%	\$ 142,718	\$ -
4 Residential Direct Care Wage Increase #1 - 100% MOE	\$ 531,180	67.97%	32.03%	\$ 361,060	\$ 170,120
5 Residential Direct Care Wage Increase #2 - 100% MOE	<u>\$ 198,641</u>	80.78%	19.22%	<u>\$ 160,468</u>	<u>\$ 38,173</u>
6 Total	<u>\$ 1,130,509</u>			<u>\$ 896,947</u>	<u>\$ 233,562</u>

Muskegon County Community Mental Health Services  
Schedule C  
Contract Reconciliation and Cash Settlement Summary  
October 1, 1998 through September 30, 1999

II.	Specialized Managed Care (Includes State and Federal share)	MDCH Revenue	MDCH Expense
A.	Total - Specialized Managed Care	\$ 22,990,308	\$ 20,836,705
B.	Maintenance of Effort – Summary	\$ 896,947	\$ 832,084
C.	Net Specialized Managed Care (A-B)	<u>\$ 22,093,361</u>	<u>\$ 20,004,621</u>
III.	State/General Fund Formula Funding		
A.	GF/Formula - State and Community Managed Programs	Authorization	MDCH Expense
	1 State Managed Services	\$ 976,822	\$ 1,278,523
	2 MDCH Risk Authorization - MDCH Approved for Use	\$ -	\$ -
	3 Community Managed Services	\$ 6,423,201	\$ 4,987,010
	4 Total State and Community Programs - GF/Formula Funding	\$ 7,400,023	\$ 6,265,533
B.	Maintenance of Effort – Summary	\$ 233,562	\$ 228,752
C.	Categorical, Special and Designated Funds		
	1 Respite Grant (Tobacco Tax)	\$ 19,300	\$ 19,300
	2 Permanency Planning Grant	\$ -	\$ -
	3 Total Categorical, Special and Designated Funds	<u>\$ 19,300</u>	<u>\$ 19,300</u>
D.	Subtotal-GF/Formula Community and State Managed Programs	<u>\$ 7,147,161</u>	<u>\$ 6,017,481</u>
IV.	Shared Risk Arrangement	Specialized Managed Care	Formula Funds
A.	Operating Budget - Exclude MOE and Categorical Funding	\$ 22,093,361	\$ 7,147,161
B.	MDCH Share - Exclude MOE and Categorical Funding	<u>\$ 20,004,621</u>	<u>\$ 6,017,481</u>
C.	Surplus (Deficit)	<u>\$ 2,088,740</u>	<u>\$ 1,129,680</u>
	Risk Band – 5% of Operating Budget (A*5%)	<u>\$ 1,104,668</u>	<u>\$ 357,358</u>

Muskegon County Community Mental Health Services  
Schedule C  
Contract Reconciliation and Cash Settlement Summary  
October 1, 1998 through September 30, 1999

		Approved Savings or		Grand
V. Cash Settlement	MDCH Share	Carryforward	Total	Total
A. MDCH Obligation				
1 Specialty Managed Care (Net of MOE)	\$20,004,621	**	\$20,004,621	
2 GF/Formula Funding (Net of Categorical and MOE)	\$ 6,017,481	\$ 357,358	\$ 6,374,839	
3 MOE Specialty Managed Care MDCH Obligation	\$ 832,084	\$ 7,382	\$ 839,466	
4 MOE GF/Formula Funding MDCH Obligation	\$ 228,752	\$ 286	\$ 229,038	
5 Categorical - MDCH Obligation	\$ 19,300	\$ -	\$ 19,300	
6 Total - MDCH Obligation				\$ 27,467,264
B. Advances - Prepayments				
1 Specialized Managed Care - Prepayments Through 9/30/1999		\$ 22,990,308		
2 Specialized Managed Care - FY 99 Prepayments after 9/30/1999		\$ -		
3 Subtotal - Specialized Managed Care			\$22,990,308	
4 GF/Formula Funding - (Include MDCH Risk Authorization)			\$ 6,416,759	
5 Purchase of Services			\$ 976,822	
6 Categorical Funding			\$ 19,300	
7 Total Prepayments				\$ 30,403,189
C. Balance Due MDCH				\$ 2,935,925
D. Balance Due to MDCH for Unpaid State Service Costs				
State Facility Costs			\$ 1,278,523	
Actual Payments to MDCH			\$ 1,278,523	
Balance Due MDCH				\$ -
E. Net Balance Due MDCH				\$ 2,935,925
Prior Settlement				\$ (74,862)
Children's Waiver Due to MDCH (Finding # 4)				\$ 3,191
Balance Due to MDCH				\$ 2,864,254

\*\* Retention of Medicaid Savings of \$1,104,668 as a result of audit adjustments contingent on inclusion in an approved Medicaid Saving Plan as required by Section 8.8.2.2 of the MSSSC.



Muskegon County Community Mental Health Services  
Schedule D  
Financial Status Report  
October 1, 1999 through September 30, 2000

REVENUES	Reported Amount	Audit Adjustments	Adjusted Amount
A. Revenues Not Otherwise Reported	\$ 139,095	\$ (3,699)	\$ 135,396
B. Substance Abuse Total	\$ 1,403,147	\$ -	\$ 1,403,147
1 Medicaid Pass Through	\$ 1,403,147	\$ -	\$ 1,403,147
2 Other	\$ -	\$ -	\$ -
C. Earned Contracts (non DCH) Total	\$ 97,477	\$ -	\$ 97,477
1 CMH to CMH	\$ 74,765	\$ -	\$ 74,765
2 Other	\$ 22,712	\$ -	\$ 22,712
D. MI Child - Mental Health	\$ 8,558	\$ -	\$ 8,558
E. Local Funding Total	\$ 1,184,292	\$ -	\$ 1,184,292
1 Special Fund Account (226(a))	\$ 87,416	\$ -	\$ 87,416
2 Title XX Replacement	\$ 6,412	\$ -	\$ 6,412
3 All Other	\$ 1,090,464	\$ -	\$ 1,090,464
F. Reserve Balances - Planned for use	\$ 341,130	\$ 16,514	\$ 357,644
1 Carryforward -Section 226(2)(b)(c)	\$ 341,130	\$ 16,514	\$ 357,644
2 Internal Service Fund	\$ -	\$ -	\$ -
3 Other (205(4)(h))	\$ -	\$ -	\$ -
4 Stop/loss Insurance	\$ -	\$ -	\$ -
G. DCH Earned Contracts Total	\$ 130,853	\$ -	\$ 130,853
1 PASARR	\$ 26,428	\$ -	\$ 26,428
2 Block Grant for CMH Services	\$ 33,700	\$ -	\$ 33,700
3 DD Council Grants	\$ -	\$ -	\$ -
4 PATH/Homeless	\$ 65,725	\$ -	\$ 65,725
5 Prevention	\$ -	\$ -	\$ -
6 Aging	\$ -	\$ -	\$ -
7 HUD Shelter Plus Care	\$ -	\$ -	\$ -
8 Other DCH Earned Contracts	\$ 5,000	\$ -	\$ 5,000

Muskegon County Community Mental Health Services  
Schedule D  
Financial Status Report  
October 1, 1999 through September 30, 2000

REVENUES	Reported Amount	Audit Adjustments	Adjusted Amount
H. Gross Medicaid Total	\$ 22,154,292	\$ 1,591,752	\$ 23,746,044
1 Medicaid - Specialty Managed Care	\$ 21,713,787	\$ 1,591,752	\$ 23,305,539
2 Medicaid - Children's Waiver Total	\$ 440,505	\$ -	\$ 440,505
I. Reimbursements Total	\$ 1,697,905	\$ 3,699	\$ 1,701,604
1 1st and 3rd Party	\$ -	\$ -	\$ -
2 SSI	\$ 1,697,905	\$ 3,699	\$ 1,701,604
J. State General Funds Total	\$ 7,367,409	\$ 745,726	\$ 8,113,135
1 Formula Funding	\$ 5,789,835	\$ 350,089	\$ 6,139,924
2 Categorical Funding	\$ 19,300	\$ -	\$ 19,300
3 State Services Base	\$ 1,558,274	\$ 395,637	\$ 1,953,911
4 DCH Risk Authorization	\$ -	\$ -	\$ -
5 Residential D.C.W.	\$ -	\$ -	\$ -
K. Grand Total Revenues	\$ 34,524,158	\$ 2,353,992	\$ 36,878,150
L. Estimated MDCH Obligation (G+H+J)	\$ 29,652,554	\$ 2,337,478	\$ 31,990,032

Muskegon County Community Mental Health Services  
Schedule D  
Financial Status Report  
October 1, 1999 through September 30, 2000

EXPENDITURES	Reported Amount	Audit Adjustments	Adjusted Amount
A. Gross Total Expenditures	\$ 34,524,158	\$ (1,097,007)	\$ 33,427,151
B. Expenditures Not Otherwise Reported	\$ -	\$ -	\$ -
C. Substance Abuse Total	\$ 1,403,147	\$ -	\$ 1,403,147
1 Medicaid Pass Through	\$ 1,403,147	\$ -	\$ 1,403,147
2 Other	\$ -	\$ -	\$ -
D. Earned Contracts (Non MDCH) Total	\$ 97,477	\$ -	\$ 97,477
1 CMH to CMH	\$ 74,765	\$ -	\$ 74,765
2 Other Earned Contracts	\$ 22,712	\$ -	\$ 22,712
E. MI Child - Mental Health	\$ 8,558	\$ -	\$ 8,558
F. Local Total	\$ 206,297	\$ -	\$ 206,297
1 Local Cost for State Provided Services	\$ 173,142	\$ -	\$ 173,142
2 Other Not Used as Local Match	\$ 33,155	\$ -	\$ 33,155
G. Expenditures From Reserve Balances	\$ 341,130	\$ 16,514	\$ 357,644
1 Carryforward - Sec 226(2)(b)(c)	\$ 341,130	\$ 16,514	\$ 357,644
2 Internal Service Fund	\$ -	\$ -	\$ -
3 Other (205(4)(h))	\$ -	\$ -	\$ -
4 Stop/Loss Ins.	\$ -	\$ -	\$ -
H. MDCH Earned Contracts Total	\$ 130,853	\$ -	\$ 130,853
1 PASARR	\$ 26,428	\$ -	\$ 26,428
2 Block Grant for CMH Services	\$ 33,700	\$ -	\$ 33,700
3 DD Council Grants	\$ -	\$ -	\$ -
4 PATH/Homeless	\$ 65,725	\$ -	\$ 65,725
5 Prevention	\$ -	\$ -	\$ -
6 Aging	\$ -	\$ -	\$ -
7 HUD Shelter Plus Care	\$ -	\$ -	\$ -
8 Other MDCH Earned Contracts	\$ 5,000	\$ -	\$ 5,000

Muskegon County Community Mental Health Services  
Schedule D  
Financial Status Report  
October 1, 1999 through September 30, 2000

EXPENDITURES	Reported Amount	Audit Adjustments	Adjusted Amount
I. Matchable Services (A-(B through H))	\$ 32,336,696	\$ (1,113,521)	\$ 31,223,175
J. Payments to MDCH for State Services	\$ 1,558,274	\$ 19,152	\$ 1,577,426
K. Specialty Managed Care Service Total	\$ 22,237,949	\$ (801,314)	\$ 21,436,635
1 100% MDCH Matchable Services	\$ 10,561,374	\$ (367,922)	\$ 10,193,452
2 All SSI and Other Reimbursements	\$ -	\$ -	\$ -
3 Net MDCH Share for 100 % Services	\$ 10,561,374	\$ (367,922)	\$ 10,193,452
4 90/10 Matchable Services	\$ 11,676,575	\$ (433,392)	\$ 11,243,183
5 Medicaid Federal Share	\$ 6,434,960	\$ (238,843)	\$ 6,196,118
6 Other Reimbursements	\$ -	\$ -	\$ -
7 10% Local Match Funds	\$ 524,161	\$ (19,455)	\$ 504,706
8 Net State Share for 90/10 Services	\$ 4,717,454	\$ (175,095)	\$ 4,542,358
9 Total MDCH Share, Spec. Mgd Care	\$ 21,713,788	\$ (781,859)	\$ 20,931,929
L. GF Categorical and Formula Services Total	\$ 8,099,968	\$ (331,359)	\$ 7,768,609
1 100% MDCH Matchable Services	\$ 3,474,651	\$ (126,914)	\$ 3,347,736
2 All SSI and Other Reimbursements	\$ 1,750,013	\$ 20,176	\$ 1,770,189
3 Net GF and Formula for 100% Services	\$ 1,724,638	\$ (147,091)	\$ 1,577,547
4 90/10 Matchable Services	\$ 4,625,317	\$ (204,444)	\$ 4,420,873
5 Reimbursements	\$ 86,987	\$ (20,176)	\$ 66,811
6 10% Local Match Funds	\$ 453,833	\$ (18,427)	\$ 435,406
7 Net GF and Formula for 90/10 Services	\$ 4,084,497	\$ (165,841)	\$ 3,918,656
8 Total MDCH GF and Formula	\$ 5,809,135	\$ (312,932)	\$ 5,496,203
M. Children's Waiver – Total	\$ 440,505	\$ -	\$ 440,505
1 Medicaid - Federal Share	\$ 242,762	\$ -	\$ 242,762
2 Other Reimbursements	\$ -	\$ -	\$ -
3 Net State Share (M-M1-M2)	\$ 197,743	\$ -	\$ 197,743
4 Total MDCH Share Children's Waiver	\$ 440,505	\$ -	\$ 440,505

Muskegon County Community Mental Health Services  
Schedule D  
Financial Status Report  
October 1, 1999 through September 30, 2000

N. Unobligated Spending Authority Total	\$	-	\$	-	\$	-
1 DCH Risk Authorization	\$	-	\$	-	\$	-
2 All Other	\$	-	\$	-	\$	-
O. Total Local Match Funds	\$	977,994	\$	(37,882)	\$	940,113
P. Total MDCH Share of Expenditures	\$	29,521,702	\$	(1,075,639)	\$	28,446,062

Schedule E  
Explanation of Audit Adjustments  
October 1, 1999 to September 30, 2000

**Revenues Not Otherwise Reported** **(\$3,699)**

To reclassify (\$3,699) in Food Stamp Revenue to Reimbursements – SSI for the proper reporting of revenues. (See Finding 7)

**Reserve Balances – Planned for Use** **\$16,514**

\$16,514 to increase the reported revenues due to an increase in the allowable GF carryforward calculated as a result of audit adjustments to the FYE 9/30/1999 FSR.

**Gross Medicaid Total** **\$1,591,752**

\$1,591,752 to increase Medicaid – Specialty Managed Care Funds to reflect funds received from MDCH. (See Finding 4)

**Reimbursements - SSI** **\$3,699**

To reclassify \$3,699 in Food Stamp Revenue from Revenues Not Otherwise Reported for the proper reporting of revenues. (See Finding 7)

**State General Fund Total** **\$745,726**

\$745,726 to increase Formula Funding and the State General Funds Total to reflect funds received from MDCH. (See Finding 4)

To reclassify \$395,637 to GF- State Services Base from GF- Formula Funding for proper reporting of revenues. (See Finding 4)

**Gross Total Expenditures****(\$1,097,007)**

(\$914,249) to remove capital assets expensed in error. (See Finding 9)

\$183,402 to record depreciation expense on capital assets. (See Finding 9)

(\$87,892) to reduce legal fees related to the lawsuit against the State of Michigan.  
(See Finding 10)

(\$5,558) to remove lobbying expenditures. (See Finding 11)

(\$48,728) to remove wages paid for non-CMH related services. (See Finding 12)

(\$52,203) to reduce depreciation claimed on the Halmond Center Building in excess of the allowable amount per the County maintained depreciation schedule.  
(See Finding 13 A)

(\$131,429) to remove depreciation claimed on equipment purchased by MCCMHS that was already reported on the filed FSRs of the prior and the current fiscal years. (See Finding 13 B)

(\$15,692) to reduce the claimed expenditures for the Halmond Center Building to the allowable underlying cost. (See Finding 14 A)

(\$43,810) to reduce the claimed expenditures for the Peck Street Building to the allowable underlying cost. (See Finding 14 B)

\$19,152 to increase the allowable cost of State Services as a result of a change in coverage responsibility for a consumer previously assigned to another CMH Board. (See Finding 3)

**Expenditures from Reserve Balances****\$16,514**

\$16,514 to increase Expenditures from Reserve Balances for an increase in the GF Carryforward calculated as a result of audit adjustments to the FYE 9/30/1999 FSR.

**Payments to MDCH for State Services****\$19,152**

\$19,152 to increase the allowable cost of State Services as a result of a change in coverage responsibility for a consumer previously assigned to another CMH Board. (See Finding 3)

**Specialty Managed Care Service Total****(\$801,315)**

(\$660,165) to remove capital assets expensed in error. (See Finding 9)

\$126,534 to record depreciation expense on capital assets. (See Finding 9)

(\$61,595) to reduce legal fees related to the lawsuit against the State of Michigan. (See Finding 10)

(\$3,895) to remove lobbying expenditures. (See Finding 11)

(\$34,195) to remove wages paid for non-CMH related services. (See Finding 12)

(\$36,371) to reduce depreciation claimed on the Halmond Center Building in excess of the allowable amount per the County maintained depreciation schedule. (See Finding 13 A)



(\$91,567) to remove depreciation claimed on equipment purchased by MCCMHS that was already reported on the filed FSRs of the prior and the current fiscal years. (See Finding 13 B)

(\$11,158) to reduce the claimed expenditures for the Halmond Center Building to the allowable underlying cost. (See Finding 14 A)

(\$28,902) to reduce the claimed expenditures for the Peck Street Building to the allowable underlying cost. (See Finding 14 B)

**GF Categorical and Formula Services Total** **(\$331,359)**

To reclassify \$20,176 of SSI Revenue received from GF - 90/10 Reimbursements to GF – 100% All SSI and Other Reimbursements. (See Finding 6)

(\$254,084) to remove capital assets expensed in error. (See Finding 9)

\$56,868 to record depreciation expense on capital assets. (See Finding 9)

(\$26,297) to reduce legal fees related to the lawsuit against the State of Michigan. (See Finding 10)

(\$1,663) to remove lobbying expenditures. (See Finding 11)

(\$14,533) to remove wages paid for non-CMH related services. (See Finding 12)

(\$15,832) to reduce depreciation claimed on the Halmond Center Building in excess of the allowable amount per the County maintained depreciation schedule. (See Finding 13 A)

(\$39,862) to remove depreciation claimed on equipment purchased by MCCMHS that was already reported on the filed FSRs of the prior and the current fiscal years. (See Finding 13 B)

(\$4,534) to reduce the claimed expenditures for the Halmond Center Building to the allowable underlying cost. (See Finding 14 A)

(\$14,908) to reduce the claimed expenditures for the Peck Street Building to the allowable underlying cost. (See Finding 14 B)

(\$16,514) to reduce the claimed expenditures due to an increase in the allowable GF carryforward calculated as a result of audit adjustments to the FYE 9/30/1999 FSR.

**Local Total Other**

**(\$37,882)**

To reduce the Local Match Funds required based upon the audit findings in the Specialty Managed Care Services and the GF Categorical and Formula Services calculations.

Muskegon County Community Mental Health Services  
Schedule F  
Contract Reconciliation and Cash Settlement Summary  
October 1, 1999 through September 30, 2000

I. Maintenance of Effort (MOE)	Total Authorization	Medicaid Expenditures	General Fund Expenditures	Carryforward or Savings	Total MDCH Share
A. MOE – Expenditures					
1 Ethnic Population	\$ 104,600	\$ 306,874	\$ 58,175	\$ -	\$ 365,049
2 OBRA Active Treatment	\$ 153,370	\$ -	\$ 129,077	\$ 7,669	\$ 136,746
3 OBRA Residential	\$ 142,718	\$ 236,567	\$ 7,186	\$ -	\$ 243,753
4 Residential Direct Care Wage Increase #1 - 100% MOE	\$ 531,180	\$ 361,060	\$ 170,120	\$ -	\$ 531,180
5 Residential Direct Care Wage Increase #2 - 100% MOE	\$ 397,282	\$ 326,424	\$ 70,858	\$ -	\$ 397,282
6 Total	<u>\$ 1,329,150</u>	<u>\$ 1,230,925</u>	<u>\$ 435,416</u>	<u>\$ 7,669</u>	<u>\$ 1,674,010</u>
7 Maintenance of Effort - Lapse					<u>\$ 16,625</u>
B. Reallocation of MOE Authorization	MOE Authorization	Medicaid Percentage	General Fund Percentage	Medicaid	General Fund
1 Ethnic Population	\$ 104,600	84.06%	15.94%	\$ 87,931	\$ 16,669
2 OBRA Active Treatment	\$ 153,370	0.00%	100.00%	\$ -	\$ 153,370
3 OBRA Residential	\$ 142,718	97.05%	2.95%	\$ 138,511	\$ 4,207
4 Residential Direct Care Wage Increase #1 - 100% MOE	\$ 531,180	67.97%	32.03%	\$ 361,060	\$ 170,120
5 Residential Direct Care Wage Increase #2 - 100% MOE	<u>\$ 397,282</u>	82.16%	17.84%	<u>\$ 326,424</u>	<u>\$ 70,858</u>
6 Total	<u>\$ 1,329,150</u>			<u>\$ 913,926</u>	<u>\$ 415,224</u>

Muskegon County Community Mental Health Services  
Schedule F  
Contract Reconciliation and Cash Settlement Summary  
October 1, 1999 through September 30, 2000

	MDCH Revenue	MDCH Expense
II Specialized Managed Care (Includes State and Federal share)		
A. Total - Specialized Managed Care	\$ 23,305,539	\$ 20,931,929
B. Maintenance of Effort – Summary	\$ 913,926	\$ 913,926
C. Net Specialized Managed Care	\$ 22,391,613	\$ 20,018,003

III. State/General Fund Formula Funding

	Authorization	MDCH Expense
A. GF/Formula - State and Community Managed Programs		
1 State Managed Services	\$ 1,953,911	\$ 1,577,426
2 MDCH Risk Authorization - MDCH Approved for Use	\$ -	\$ -
3 Community Managed Services	\$ 6,138,782	\$ 5,496,203
4 Total State and Community Programs – GF/Formula Funding	\$ 8,092,693	\$ 7,073,629
B. Maintenance of Effort – Summary	\$ 415,224	\$ 390,931
C. Categorical, Special and Designated Funds		
1 Respite Grant (Tobacco Tax)	\$ 19,300	\$ 19,300
2 Permanency Planning Grant	\$ -	\$ -
3 Total Categorical, Special and Designated Funds	\$ 19,300	\$ 19,300
D. Subtotal-GF/Formula Community and State Managed Programs	\$ 7,658,169	\$ 6,663,398

Muskegon County Community Mental Health Services  
Schedule F  
Contract Reconciliation and Cash Settlement Summary  
October 1, 1999 through September 30, 2000

	<u>Specialized Managed Care</u>	<u>Formula Funds</u>
IV. Shared Risk Arrangement		
A. Operating Budget - Exclude MOE and Categorical Funding	\$ 22,391,613	\$ 7,658,169
B. MDCH Share - Exclude MOE and Categorical Funding	<u>\$ 20,018,003</u>	<u>\$ 6,663,398</u>
C. Surplus (Deficit)	<u>\$ 2,373,610</u>	<u>\$ 994,771</u>
Risk Band - 5% of Operating Budget (A x 5%)	<u>\$ 1,119,581</u>	<u>\$ 382,908</u>

Muskegon County Community Mental Health Services  
Schedule F  
Contract Reconciliation and Cash Settlement Summary  
October 1, 1999 through September 30, 2000

		Approved Savings or		Grand
V. Cash Settlement	MDCH Share	Carryforward	Total	Total
A. MDCH Obligation				
1 Specialty Managed Care (Net of MOE)	\$ 20,018,003	\$ 1,119,581	\$ 21,137,584	
2 GF/Formula Funding (Net of Categorical and MOE)	\$ 6,663,398	\$ 382,908	\$ 7,046,306	
3 MOE Specialty Managed Care MDCH Obligation	\$ 913,926	\$ -	\$ 913,926	
4 MOE GF/Formula Funding MDCH Obligation	\$ 390,931	\$ 7,669	\$ 398,600	
5 Categorical - MDCH Obligation	\$ 19,300	\$ -	\$ 19,300	
6 Total - MDCH Obligation				\$ 29,515,716
B. Advances – Prepayments				
1 Specialized Managed Care - Prepayments Through 9/30/2000		\$ 23,305,539		
2 Specialized Managed Care - FY 99 Prepayments after 9/30/2000		\$ -		
3 Subtotal - Specialized Managed Care			\$ 23,305,539	
4 GF/Formula Funding - (Include MDCH Risk Authorization)			\$ 6,139,924	
5 Purchase of Services			\$ 1,953,911	
6 Categorical Funding			\$ 19,300	
7 Total Prepayments				\$ 31,418,674
C. Balance Due MDCH				\$ 1,902,958
D. Balance Due to MDCH for Unpaid State Service Costs				
State Facility Costs			\$ 1,577,426	
Actual Payments to MDCH			\$ 1,577,426	
Balance Due MDCH				\$ -
E. Net Balance Due MDCH				\$ 1,902,958
Prior Settlement				\$ (808,169)
Balance Due to MDCH				\$ 1,094,789

## Corrective Action Plan

**Finding Number:** 1

**Page Reference:** 3

**Finding:** Resident Funds

MCCMHS did not maintain resident funds in compliance with the Licensing Rules for Adult Foster Care Small Group Homes issued by the State of Michigan Department of Consumer & Industry Services.

**Recommendation:** Adopt policies and procedures to ensure adherence to the pertinent rules regarding the handling and safekeeping of resident funds as detailed in the Licensing Rules for Adult Foster Care Small Group Homes issued by the State of Michigan Department of Consumer & Industry Services, R 400.14315 Handling of Resident Funds and Valuables.

**Comments:** The County disagrees with the finding.

**Corrective Action:** None.

**Anticipated**

**Completion Date:** N/A

**MDCH Response:** MCCMHS provided no explanation for their disagreement or any supporting documentation to refute the audit finding. Additionally, MCCMHS plans no corrective action. In the absence of an explanation for the finding, MDCH will forward this information to the Office of Children and Adult Licensing of the Family Independence Agency (this Agency was previously a division of the Michigan Department of Consumer & Industry Services).

## Corrective Action Plan

**Finding Number:** 2

**Page Reference:** 4

**Finding:** Negative Balances in Individual Resident Fund Accounts

MCCMHS distributed more funds than had been deposited into resident fund accounts resulting in negative balances.

**Recommendation:** Adopt policies and procedures to ensure adherence to the pertinent rules regarding the handling and safekeeping of resident funds as detailed in the Licensing Rules for Adult Foster Care Small Group Homes issued by the State of Michigan Department of Consumer & Industry Services, R 400.14315 Handling of Resident Funds and Valuables.

**Comments:** The County agrees with the finding.

**Corrective Action:** According to management's response, MCCMHS has implemented changes to assure that residents don't receive any funds that are not currently available in their accounts.

**Anticipated**

**Completion Date:** Completed August 1, 2004

**MDCH Response:** None.



## Corrective Action Plan

<b>Finding Number:</b>	3
<b>Page Reference:</b>	5
<b>Finding:</b>	<u>FSR Differences - State Facilities Expenditures</u> MCCMHS inaccurately reported expenditures related to State facilities on the FYE 9/30/1999 and FYE 9/30/2000 FSRs.
<b>Recommendation:</b>	Adopt policies and procedures to ensure compliance with the FSR instructions, and proper expenditure reporting.
<b>Comments:</b>	The County disagrees with the finding but will not contest the changes to the FSR as they involve reporting issues only, and not any monetary transactions.
<b>Corrective Action:</b>	According to management's response, the County has modified its reporting in accordance with the current reporting standards.
<b>Anticipated Completion Date:</b>	N/A
<b>MDCH Response:</b>	MCCMHS provided no explanation for their disagreement or any supporting documentation to refute the audit finding and adjustment. In the absence of an explanation, MDCH plans to implement the audit adjustment.

## Corrective Action Plan

**Finding Number:** 4

**Page Reference:** 6

**Finding:** FSR Differences - Medicaid and State General Fund Revenue

MCCMHS inaccurately reported State General Funds Revenue on the FYE 9/30/1999 and FYE 9/30/2000 FSRs, and the Medicaid revenue on the FYE 9/30/2000 FSR.

**Recommendation:** Adopt policies and procedures to ensure compliance with the FSR instructions, and proper revenue reporting.

**Comments:** The County disagrees with the finding but will not contest the changes to the FSR as they involve reporting issues only, and not any monetary transactions.

**Corrective Action:** According to management's response, the County has modified its reporting in accordance with the current reporting standards.

**Anticipated**

**Completion Date:** N/A

**MDCH Response:** MCCMHS provided no explanation for their disagreement or any supporting documentation to refute the audit finding and adjustment. In the absence of an explanation, MDCH plans to implement the audit adjustment.

## Corrective Action Plan

<b>Finding Number:</b>	5
<b>Page Reference:</b>	8
<b>Finding:</b>	<u>FSR Differences - Medicaid Children's Waiver</u> MCCMHS inaccurately reported revenues and expenditures related to the Medicaid Children's Waiver on the FYE 9/30/1999 FSR.
<b>Recommendation:</b>	Adopt policies and procedures to ensure compliance with the FSR instructions, and proper revenue and expenditure reporting.
<b>Comments:</b>	The County disagrees with the finding but will not contest the changes to the FSR as they involve reporting issues only, and not any monetary transactions.
<b>Corrective Action:</b>	According to management's response, the County has modified its reporting in accordance with the current reporting standards.
<b>Anticipated Completion Date:</b>	N/A
<b>MDCH Response:</b>	MCCMHS provided no explanation for their disagreement or any supporting documentation to refute the audit finding and adjustment. In the absence of an explanation, MDCH plans to implement the audit adjustment.

## Corrective Action Plan

<b>Finding Number:</b>	6
<b>Page Reference:</b>	9
<b>Finding:</b>	<u>FSR Differences – SSI Revenue for GF Services</u> MCCMHS inaccurately reported SSI Revenue for 100% Matchable GF Services as reimbursements for 90/10 GF Services on the FYE 9/30/2000 FSR.
<b>Recommendation:</b>	Adopt policies and procedures to ensure compliance with the FSR instructions, and proper revenue and expenditure reporting.
<b>Comments:</b>	The County disagrees with the finding but will not contest the changes to the FSR as they involve reporting issues only, and not any monetary transactions.
<b>Corrective Action:</b>	According to management's response, the County has modified its reporting in accordance with the current reporting standards.
<b>Anticipated Completion Date:</b>	N/A
<b>MDCH Response:</b>	MCCMHS provided no explanation for their disagreement or any supporting documentation to refute the audit finding and adjustment. In the absence of an explanation, MDCH plans to implement the audit adjustment.

## Corrective Action Plan

**Finding Number:** 7

**Page Reference:** 10

**Finding:** FSR Differences - Food Stamp Program

MCCMHS inaccurately reported Indian Bay Residence food stamp revenues and expenditures on the FYE 9/30/1999 FSR, and inaccurately reported food stamp revenues on the FYE 9/30/2000 FSR.

**Recommendation:** Adopt policies and procedures to ensure compliance with the FSR instructions, and proper revenue and expenditure reporting.

**Comments:** The County disagrees with the finding but will not contest the changes to the FSR as they involve reporting issues only, and not any monetary transactions.

**Corrective Action:** According to management's response, the County has modified its reporting in accordance with the current reporting standards.

**Anticipated**

**Completion Date:** N/A

**MDCH Response:** MCCMHS provided no explanation for their disagreement or any supporting documentation to refute the audit finding and adjustment. In the absence of an explanation, MDCH plans to implement the audit adjustment.

## Corrective Action Plan

**Finding Number:** 8

**Page Reference:** 11

**Finding:** Internal Service Fund

MCCMHS improperly established, funded, and maintained an Internal Service Fund (ISF) for risk reserve.

**Recommendation:** Adopt policies and procedures to ensure that the establishment of an ISF complies with the MSSSC and OMB Circular A-87. Ensure that ISF funds are maintained in a separate fund that is not commingled with funds of other departments, agencies, governmental funds or entities to ensure these funds are expended only for ISF eligible expenses.

**Comments:** The County disagrees with the finding.

**Corrective Action:** None

**Anticipated**

**Completion Date:** N/A

**MDCH Response:** MCCMHS provided no explanation for their disagreement or any supporting documentation to refute the audit finding and adjustment. Additionally, MCCMHS plans no corrective action. In the absence of an explanation for the questioned cost, MDCH plans to implement the audit adjustment.

## Corrective Action Plan

**Finding Number:** 9

**Page Reference:** 13

**Finding:** Capital Purchases

MCCMHS did not properly report the purchases of vehicles, office equipment and other assets on the FYE 9/30/1999 FSR and FYE 9/30/2000 FSR in compliance with the MSSSC and OMB Circular A-87.

**Recommendation:** Adopt policies and procedures to ensure all capital asset purchases are capitalized and expensed in compliance with the MSSSC and OMB Circular A-87.

**Comments:** The County disagrees with the finding.

**Corrective Action:** None

**Anticipated**

**Completion Date:** N/A

**MDCH Response:** MCCMHS provided no explanation for their disagreement or any supporting documentation to refute the audit finding and adjustment. Additionally, MCCMHS plans no corrective action. In the absence of an explanation for the questioned cost, MDCH plans to implement the audit adjustment.

## Corrective Action Plan

**Finding Number:** 10

**Page Reference:** 14

**Finding:** Legal Fees

MCCMHS reported unallowable legal fees on the FYE 9/30/2000 FSRs.

**Recommendation:** Adopt policies and procedures to ensure only allowable expenditures are reported on the FSRs.

**Comments:** The County disagrees with the finding.

**Corrective Action:** None

**Anticipated**

**Completion Date:** N/A

**MDCH Response:** MCCMHS provided no explanation for their disagreement or any supporting documentation to refute the audit finding and adjustment. Additionally, MCCMHS plans no corrective action. In the absence of an explanation for the questioned cost, MDCH plans to implement the audit adjustment.



## Corrective Action Plan

**Finding Number:** 11

**Page Reference:** 15

**Finding:** Lobbying Expenses  
MCCMHS reported unallowable lobbying expenses on the FYE 9/30/1999 and FYE 9/30/2000 FSRs.

**Recommendation:** Adopt policies and procedures to ensure only allowable expenditures are reported on the FSRs.

**Comments:** The County disagrees with the finding.

**Corrective Action:** None

**Anticipated**

**Completion Date:** N/A

**MDCH Response:** MCCMHS provided no explanation for their disagreement or any supporting documentation to refute the audit finding and adjustment. Additionally, MCCMHS plans no corrective action. In the absence of an explanation for the questioned cost, MDCH plans to implement the audit adjustment.

## Corrective Action Plan

**Finding Number:** 12

**Page Reference:** 16

**Finding:** Payroll Expenses

MCCMHS improperly reported wages and fringe benefits expenses on the FYE 9/30/1999 and FYE 9/30/2000 FSRs.

**Recommendation:** Adopt policies and procedures to ensure that the cost of services rendered by staff of MCCMHS to other County Departments be removed from the general ledger expenses and charged back to the Department benefiting from the services. Adopt policies and procedures to prevent the direct allocation of wages and benefits to MCCMHS when costs for the same purpose in like circumstances are allocated through the year-end Cost Allocation Plan. Adopt policies and procedures to require employees who work on multiple activities or cost objectives to complete personnel activity reports or equivalent documentation that meets the standards of OMB Circular A-87.

**Comments:** The County agrees with the finding.

**Corrective Action:** According to management's response, if employees work on multiple funding activities, personnel activity reports will be prepared and maintained in accordance with procedures as outlined in A-87.

### Anticipated

**Completion Date:** October 1, 2004.

**MDCH Response:** MCCMHS agreed with the audit finding. However, the stated corrective action does not fully address all exceptions noted. MCCMHS must ensure that the cost of services rendered by staff of MCCMHS to other County Departments is removed from the reported costs of MCCMHS and charged back to the Department benefiting from the services.

## **Corrective Action Plan**

**Finding Number:** 12 (cont'd)

**MDCH Response:** Additionally, MCCMHS must adopt policies and procedures to prevent the direct allocation of wages and benefits to MCCMHS when costs for the same purpose in like circumstances are allocated through the year-end Cost Allocation Plan.

## Corrective Action Plan

**Finding Number:** 13

**Page Reference:** 18

**Finding:** Year-End Allocation of County Expenditures

MCCMHS reported costs for FYE 9/30/1999 and FYE 9/30/2000 that included inappropriately allocated costs from Muskegon County.

**Recommendation:** Adopt policies and procedures to ensure that all costs allocated by Muskegon County through the year-end Cost Allocation Plan are accurate and allowable under the MSSSC and OMB Circular A-87 and are directly related to services performed for the MCCMHS.

**Comments:** The County agrees with the finding.

**Corrective Action:** According to management's response, the adjustment was made in accordance with normal accounting practices in the open period at the time, which was fiscal October 1, 2001 through September 30, 2002.

**Anticipated**

**Completion Date:** December 2001

**MDCH Response:** MCCMHS agreed with the audit finding and stated that they made adjustments in a subsequent fiscal year. However, due to the complexities of the risk sharing arrangement with MDCH and the potential financial impact, and the fact that costs must be reported in the year incurred, the audit adjustments must be made in the years that errors were made. Therefore, MDCH plans to implement the audit adjustments.

## Corrective Action Plan

**Finding Number:** 14

**Page Reference:** 20

**Finding:** Overpayments for Less Than Arms Length Lease Arrangements

MCCMHS overpaid Muskegon County for the rental of office buildings and MCCMHS did not have contracts with Muskegon County for any of the office buildings owned by Muskegon County and utilized by MCCMHS.

**Recommendation:** Adopt policies and procedures to ensure MCCMHS obtain signed rental agreements that clearly state payment arrangements in compliance with OMB Circular A-87 for all rental property.

**Comments:** The County disagrees with the finding.

**Corrective Action:** None

**Anticipated**

**Completion Date:** N/A

**MDCH Response:** MCCMHS provided no explanation for their disagreement or any supporting documentation to refute the audit finding and adjustment. Additionally, MCCMHS plans no corrective action. In the absence of an explanation for the questioned cost, MDCH plans to implement the audit adjustment.